

Work Opportunity Tax Credit (WOTC)

The Work Opportunity Tax Credit (WOTC) is a Federal tax credit incentive that the Congress provides to private-sector businesses for hiring individuals from any of twelve target groups who have consistently faced significant barriers to employment. The main objective of this program is to enable the targeted employees to gradually move from economic dependency into self-sufficiency as they earn a steady income and become contributing taxpayers, while the participating employers are able to reduce their federal income tax liability.

On February 17, 2009, the President signed into law the *American Recovery and Reinvestment Act of 2009* (Recovery Act). The Recovery Act amends Section 51 of the Internal Revenue Code by adding two new WOTC target groups:

- 1) Unemployed Veterans -- A veteran hired after 2008 and before 2011 who has been discharged or released from active duty in the U.S. Armed Forces at any time during the 5-year period ending on the hiring date; and who received unemployment compensation under state or federal law for a period or periods totaling at least 4 weeks during the one year period ending on the hiring date. To be considered a Veteran, the applicant must have served on active duty (other than active duty for training) in the Armed Forces of the United States for a period of more than 180 days, or have been discharged or released from active duty in the Armed Forces for a service-connected disability, and
- 2) Disconnected Youth --an individual who is certified as having attained age 16 but not age 25 on the hiring date; not regularly attending any secondary, technical, or post-secondary school during the 6-month period preceding the hiring date; not regularly employed during such 6-month period; **and** not readily employable by reason of lacking a sufficient number of basic skills.

Individuals in these two new target groups must begin work for an employer during 2009 or 2010.

WHAT NEW HIRES CAN QUALIFY EMPLOYERS FOR THE WOTC?

- The consolidated WOTC applies only to new employees who begin working for an employer between January 1, 2007, and September 1, 2011.
- The new employee *must* belong to one of the following 12 WOTC target groups:

1. Long-term TANF Recipient. A member of a family that:

- Received or recently received Temporary Assistance to Needy Families (TANF) payments for at least 18 consecutive months ending on the hiring date, **or**
- Received TANF payments for any 18 months (whether or not consecutive) beginning after August 5, 1997, and the earliest 18-month period beginning after August 5, 1997 ended during the past 2 years, **or**
- Stopped being eligible for TANF payments during the past 2 years because federal or state law limited the maximum time those payments could be made.

2. Other TANF Recipient. A member of a family that is receiving or recently received TANF benefits for any 9-month period during the 18-month period ending on the hiring date.

3. Qualified Food Stamp Recipient. An 18-39 year old member of a family that received Food Stamps for the past 6 months, **or** received Food Stamps for at least 3 of the past 5 months.

4. Designated Community Resident. An 18-39 year old resident of one of the federally designated Empowerment Zones (EZs), Enterprise Communities (ECs), Renewal Communities (RCs), and for individuals who begin to work for an employer after May 25, 2007, this High-Risk Youth group has been renamed “Designated Community Resident” and expanded to include residents of Rural Renewal Counties; **Note:** All Round I Enterprise Communities (ECs) including enhanced Enterprise Communities expired on December 31, 2004. Round II ECs are still in existence as are all the EZs. For information about EZ/EC/RC locations, visit the U.S. Department of Housing and Urban Development (HUD) Web site at <http://www.hud.gov/cr> , or call 1-800-998-9999.

5. Summer Youth Employee. A 16-17 year old EZ/EC or RC resident hired between May 1 and September 15.

6. Qualified Veteran. A veteran who is a member of a family that is receiving or recently received Food Stamps for at least a 3-month period during the past 15 months; and for individuals who begin to work for an employer after May 25, 2007, the veteran group is expanded to include “**disabled veterans**” who are entitled to compensation for a service-connected disability **and** who, during the one-year ending on the hiring date, were: a) discharged or released from active duty in the U.S. Armed Forces, **or** b) unemployed for a period or periods totaling at least 6 months. The first-year wages taken into account for these “disabled veterans” are capped at \$12,000.

7. Vocational Rehabilitation Referral. An individual who completed or is completing rehabilitative services from a State certified agency, an Employment Network, or the U.S. Department of Veterans Affairs.

8. Qualified Ex-Felon. An individual who has been convicted of a felony and has a hiring date which is not more than one year after the last date on which he was so convicted or released from prison.

9. SSI Recipient. A recipient of Supplemental Security Income (SSI) benefits for any month ending during the past 60-day period, ending on the hire date.

10. Hurricane Katrina Employee. This group does not require certification by the VEC.

11. Unemployed Veteran. A veteran hired after 2008 and before 2011 who:

- Has been discharged or released from active duty in the U.S. Armed Forces at any time during the 5-year period ending on the hiring date, and
- Received unemployment compensation under state or federal law for at least 4 weeks during the 1-year period ending on the hiring date.

- To be considered a veteran, the applicant must have served on active duty (not including training) in the Armed Forces of the United States for more than 180 days or have been discharged or released from active duty for a service-connected disability.

12. Disconnected Youth. An individual who is certified as:

- Having attained age 16 but not age 25 on the hiring date,
- Not regularly attending any secondary, technical, or post-secondary school during the 6-month period preceding the hiring date,
- Not regularly employed during such 6-month period, **and**
- Not readily employable by reason of lacking a sufficient number of basic skills.

The consolidated WOTC for hiring most target group members can now be as much as:

- \$2,400 for each *new* adult hire;
- \$1,200 for each *new* summer youth hire,
- \$4,800 for each *new* disabled veteran hire, and
- \$9,000 for each *new* long-term family assistance recipient hired over a two-year period.

Minimum employment or retention period. All new adult employees must work a minimum of 120 or 400 hours. Individuals hired as Summer Youth employees must work at least 90 days, between May 1 and September 15, before an employer is eligible to claim the tax credit. The WOTC amount an employer may claim depends on the hours the employee works. The credit is 25% of qualified first-year wages for those employed at least 120 hours but fewer than 400 hours and 40% for those employed 400 hours or more.

HOW CAN VIRGINIA EMPLOYERS PARTICIPATE IN THE WOTC?

To receive certification that a *new employee* qualifies the employer for this tax credit, the employer must:

1. Complete page one of IRS Form 8850 by the day the job offer is made.
2. Complete page 2 of IRS form 8850 *after* the individual is hired.
3. Complete the one page ETA Form 9061
4. Mail the completed and signed IRS and ETA forms to:

Virginia Employment Commission
WOTC Program Coordinator - Room 209
P. O. Box 1358
Richmond, VA 23218-1358

Note: The completed and signed forms must be **mailed** (faxed copies are not acceptable) within 28 days after the employee's employment-start date for all individuals who begin work for an employer on or after January 1, 2007.

IRS Form 8850

http://www.doleta.gov/business/Incentives/opptax/PDF/WOTC_IRS_Form_8850.pdf

IRS Form 8850 - Instructions

http://www.doleta.gov/business/Incentives/opptax/PDF/WOTC_IRS_Form_8850_I.pdf

ETA Form 9061

http://www.doleta.gov/business/Incentives/opptax/PDF/WOTC_ETA_Form_9061.pdf

Policy Guidance

http://www.doleta.gov/business/Incentives/opptax/policy_guidance.cfm?DOCN=2326